

Stakeholder Comments Template

**Flexible Resource Adequacy Criteria and Must-Offer Obligation
Straw Proposal, December 13, 2012**

Submitted by	Company	Date Submitted
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Sempra USGP provides the following comments based on the CAISO comment template. The comments cover the Flexible Resource Adequacy Criteria and Must-Offer Obligation straw proposal dated December 13, 2012, and issues discussed during the stakeholder meeting on December 20, 2012.

1. The ISO has outlined the basic considerations and assumptions that it proposes (in conjunction with the “Joint Parties”) for the flexible capacity needs assessment for 2104. Please provide any general comments/questions/clarifications regarding the needs assessment.
2. The ISO proposes to allocate flexible capacity procurement obligations to LRAs based on the LRAs contribution to forecasted monthly system peak. Is this the appropriate allocation methodology? What other allocation methodology could be considered?

The LRA/LSE’s contribution to forecasted monthly system peak is an appropriate measure for allocation of the flexible capacity procurement obligation. This approach is consistent with the allocation of Resource Adequacy procurement obligations generally, and appropriate given the flexibility attribute is a constraint on the RA procurement obligation.

3. The ISO proposes to include default tariff provisions for LRAs that do not set flexible capacity procurement obligations. The default level would be the flexible capacity requirement established in the ISO’s flexible capacity assessment. Are there other considerations that should be included in the default provisions?
4. The ISO is proposing a year-ahead and 12 monthly showings demonstrating that an LSE has procured sufficient quantities of flexible capacity for each month, with 90 percent of the total flexible capacity obligation be shown in the year-ahead

showing and 100 percent in the month-ahead showing. Are these the right levels? Are there any other attributes that should be included in these showings?

5. The ISO is proposing new backstop authority in the system is deficient in the total amount of flexible capacity required. Are the triggers for issuing a backstop procurement designation sufficient? What else should the ISO consider?
6. The ISO is proposing to use the current CPM rate in procuring backstop flexible capacity. Are there additional considerations in the use of this rate?
7. The ISO proposes to allocate costs for backstop procurement designations to all LSEs that are deficient in their flexible capacity showings. Is cost allocation for backstop correct? If not, what other options should be considered

Backup procurement cost allocation to the deficient LSE(s) is appropriate.

8. Are the ISO's proposed criteria for determining selecting resources to procure for any flexible backstop procurement designation correct?

The CAISO backstop procurement criteria appear consistent with the existing tariff conditions for backup procurement, which are the existence of both an LSE deficiency and an overall deficiency. However, the selection criteria appear biased toward the procurement of excess flexibility attributes from resources contracted by LSEs for resource adequacy purposes, versus excess flexibility attributes available from suppliers. The term excess refers to flexible capacity available from a unit, but not fully contracted or claimed by an LSE in meeting its flexible capacity obligation. As an alternative, the backstop procurement should select from either source based on the best fit of resource operating characteristics and flexibility need.

9. The ISO has put forth a proposed counting convention for hydro resources. PG&E presented an alternative approach. Please comment on the relative merits of each proposal? Does your organization have any additional suggestions to enhance either proposal?

The CAISO has rightly adopted a fundamental premise of technology neutrality for flexibility services. For this concept to be implemented, hydro resources must have the same obligations and performance requirements as other resources providing the same service. Although the variability of flexible capacity from hydro resources may result in claimed capacity being unavailable, the most equitable approach to deal with such uncertainty is to require replacement unavailable capacity, rather than unique counting protocols or a special ambient derate dead band. In this way, LSE's can make internal economic choices on

bidding protocol or purchasing substitute capacity to address such risks within their portfolio of resources.

10. Beyond the three issues identified by the ISO, are there any other issues the ISO needs to consider in Stage Two of this stakeholder initiative and why?
11. Are there any additional comments your organization wished to make at this time?

The proposed monthly flexibility requirement is based on the maximum expected ramp plus, the higher of the single largest contingency or 3.5% of peak demand (versus the 7% contingency reserve requirement). Although conceptually, the coincidence of the monthly maximum net load ramp and a significant system disturbance that requires ramping above the 3.5% reserve capacity may be low, there does not appear to be a statistical basis for this important assumption, and more justification is warranted.

Second, the proposal assumes that existing resource adequacy contracts encompass supplier flexibility service obligations, and therefore flexibility attributes. This may not be the case, depending on the existing contract terms. The CAISO should credit only those contracts which clearly incorporate all the must-offer obligations for flexibility service. In particular, contractually permitted self-scheduled capacity may be fully compliant with meeting resource adequacy requirements while not providing the decremental bids necessary for flexible capacity service. Further, in cases where a supplier has sold portions of a unit to multiple parties and the quantities sold include capacity without flexible attributes (i.e. below the unit Pmin), ambiguity may exist as to the allocation of flexibility between the parties, absent specific contract terms.

12. Please feel free to respond to any comments already submitted to the CPUC in R.11-10-023 as they apply to the ISO straw proposal or the Joint Parties proposal.